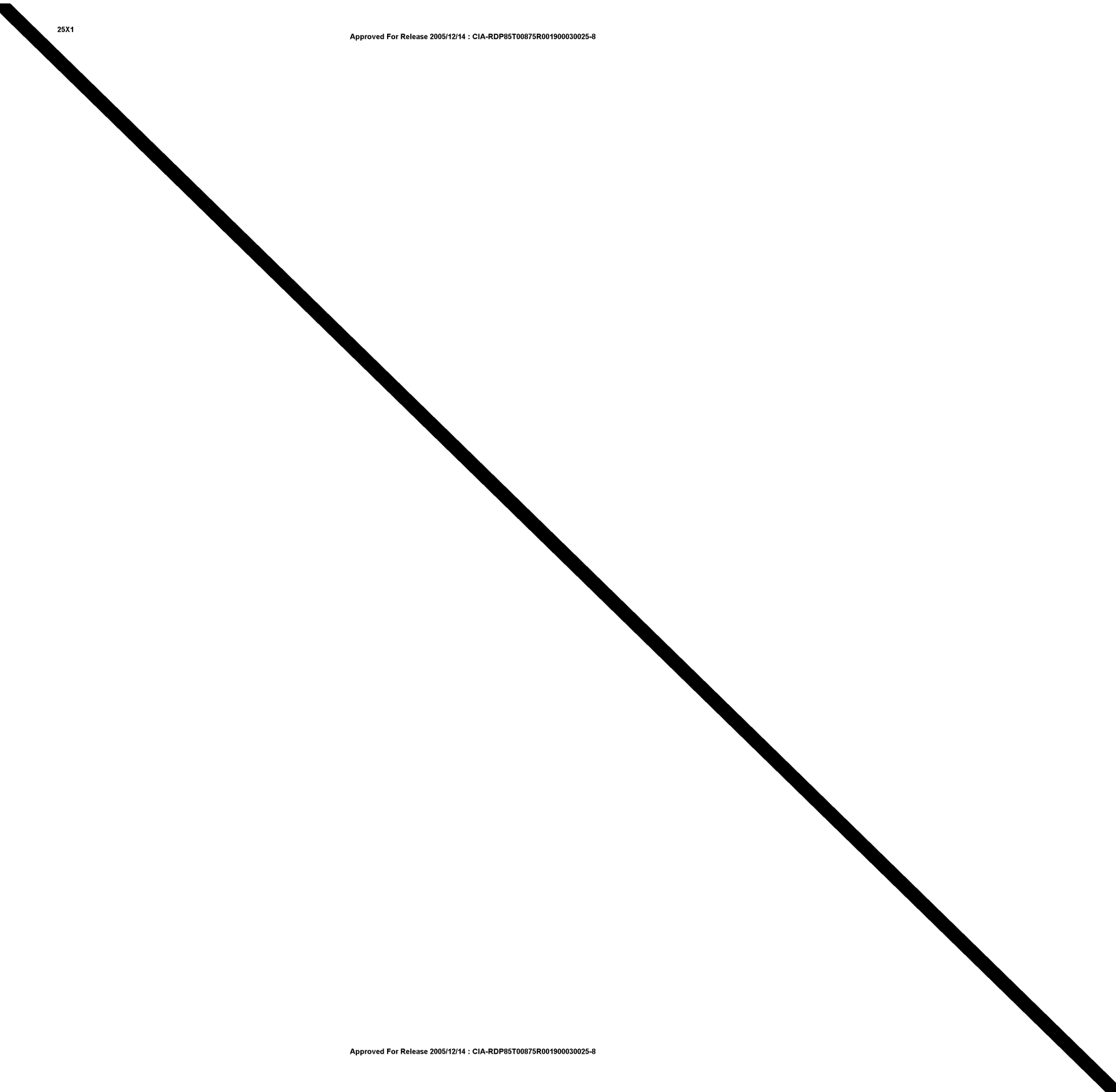

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15 July 1974

MEMORANDUM FOR THE RECORD

SUBJECT: Briefing Material on Japan

The attached material was prepared in response to a request from Mr. Thomas Enders, Assistant Secretary of State, and was forwarded to him on 12 July 1974.

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Attachment:
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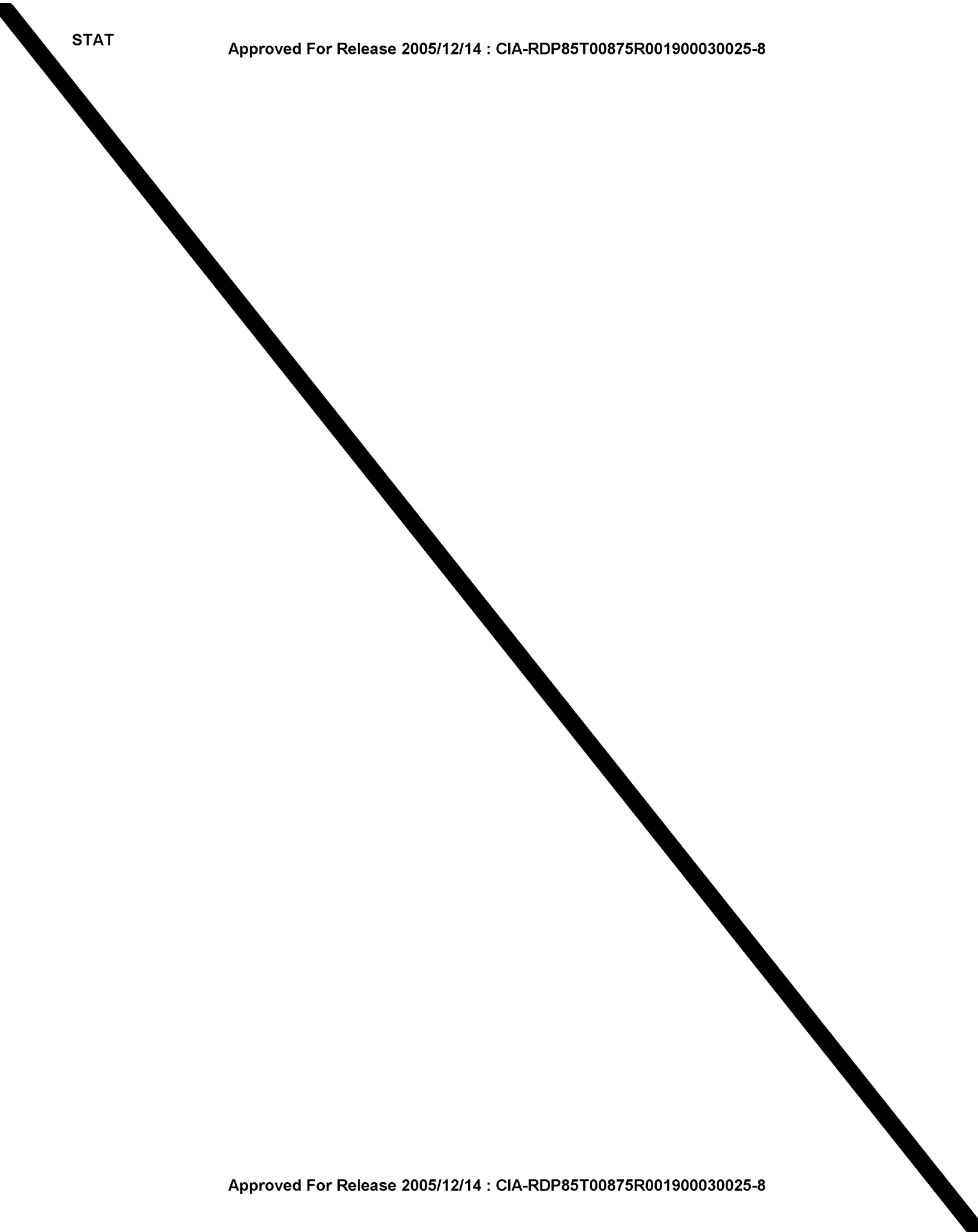

Approved For Release 2005/12/14 : CIA-RDP85T00875R001900030025-8

JAPAN: WELL INTO A SLUMP

1. The Japanese economy is experiencing its most pronounced slump since the 1950s. Industrial output has dropped substantially over the past six months, and real GNP declined 5% in the first quarter compared with the last quarter of 1973. Economic growth probably will come to a standstill in 1974. Tokyo is predicting a decline of 1.5%.

2. Tokyo's anti-inflation program has prolonged the downturn initiated by the pinch on oil supplies last winter. The most restrictive monetary and fiscal policies in years are curtailing domestic demand, forcing producers to seek foreign buyers for their goods. Rampant inflation hurt the ruling Liberal Democratic Party in the recent Upper House elections, but the pace has slowed recently. Large wage increases and a low level of unemployment have minimized popular discontent.

3. The economy should begin a gradual recovery in the second half, its timing and strength depending heavily on Tokyo's policy decisions. Finance Minister Fukuda and other officials seem determined to throttle inflation even at further cost in economic growth. Since inflation seems to concern the Tanaka government more than maintaining output, we believe it will be very cautious in switching to expansionary measures.

The Slump Arrives

4. Japanese industrial output, on a seasonally adjusted basis, slipped 5% from November through April before recovering slightly in May. Only in a few industries, such as motor vehicles, has production fallen by 10% or more since November. Because of the large profits earned in late 1973, most firms have avoided financial problems despite weak sales and rising costs. Even the hardest-hit industries are maintaining employment by cutting working hours. The unemployment rate consequently is no higher now than a year ago -- about 1.5% of the labor force.

5. In recent months, weak demand rather than inadequate oil supplies has been the main deterrent to economic growth. Consumer demand has fallen sharply in real terms, as wages failed to keep pace with prices. At the same time, tight credit and slow sales have persuaded businessmen to postpone investment outlays. Other components of demand have not taken up much of the slack, as they did during the 1971 downturn. Government spending has been declining in real terms. Output would have dropped even more had not foreign demand for Japanese goods picked up in recent months.

6. Japanese cost-of-living increases accelerated to annual rates averaging nearly 50% during the winter months. Production bottlenecks in certain industries, shortages of raw materials, speculative buying, and excess demand all played a part. Both the pinch on oil supplies and the huge

rise in the cost of oil gave considerable impetus to price hikes. Initial efforts to curb aggregate demand were too moderate to help much. Not until the end of last year were monetary restraints tight enough to force postponement of investment outlays.

7. In addition to production constraints, Japanese industry experienced serious cost pressures in early 1974. Raw material costs had risen about 30% during the previous six months and increased further after oil prices were raised on 1 January. About four-fifths of the 12% increase in wholesale prices during January-May was due to rising prices for oil and other industrial materials. Higher labor costs also contributed to the price spiral. Because of the slump in industrial output, unit labor costs in January-February rose at an annual rate of 12%. By pushing up interest rates, the government's monetary policies raised business costs.

8. The rapid price rise early this year has induced Tokyo to maintain a tough anti-inflation program. Credit limits for small and medium-sized firms were relaxed in May to avoid a rash of bankruptcies. But the overall credit limit for April-June has been held close to that of the previous quarter, pushing interest rates to near-record levels. In March, the government placed price controls on 50 basic commodities and 150 important consumer items These credit and price measures, together with weakening demand for some

commodities, slowed the increase in consumer prices to an annual rate of 15% during the 3 months ending in May compared with 47% in the preceding 3-month period.

9. Japan's economic downturn has aided the trade balance by dampening import demand and stimulating exports. Import volume during January-June 1974 was only slightly above year-earlier levels, while export volume rose an estimated 10% as Japanese firms boosted overseas sales to help offset sluggish demand at home. Even so Japan had a trade deficit of $3.0 billion (not seasonally adjusted) in January-June 1974, compared with a $1.6 billion surplus in the same months of 1973. Deterioration in the balance was primarily the result of higher oil prices, which pushed the oil import bill from $2.5 billion in the first half of 1973 to $8.9 billion this year. To protect foreign reserves, Tokyo has reduced long-term capital outflows and encouraged borrowing abroad.

A Turnaround in the Second Half

10. Japanese economic activity should turn up in the second half, but probably not enough to generate much, if any, gain in GNP for the year as a whole. Finance Minister Fukuda wants to restrain demand firmly until the fall, hoping to bring inflation under control by then. Unless industrial output recovers in the months ahead, pressures to ease policies sooner will be hard to resist. If Tokyo stimulates demand within the next couple of months, economic growth probably could reach 2% in 1974 at the outside.

11. Since the short-term outlook is for sluggish output and higher prices, it is difficult to judge what the government will do. The slump in output gradually has spread to light industry, which generally lacks the financial resources of heavy industry. The outlook for a recovery of heavy industry output is not good, especially since inventories of finished goods exceed normal levels. Tight money continues to hurt the construction industry. The value of construction orders is still running below year-earlier levels.

12. Even if Tokyo stimulates demand soon, recovery will be gradual. New orders for machinery and equipment plummeted during the first three months of 1974, and surveys suggest continuing weakness in fixed investment until the fourth quarter. A substantial slowdown in inventory accumulation appears likely, following the near-record increase during the past six months. Personal spending increased only moderately in May following the 30% wage hikes won by most workers in April.

Strong Wage-Push Coming for Prices

13. Although the worst of the price spiral appears over, rapid inflation in the months ahead seems assured because industry will face severe cost pressures. Higher labor costs stemming from the record 1974 wage hikes will be the chief factor sustaining inflation. With industrial output likely to stagnate during the next few months,

productivity gains will be too small to prevent substantial increases in unit labor costs. When price controls are lifted in the months ahead industry also will move to pass along higher production costs stemming from increased prices for oil and other raw materials. Given the magnitude of the wage and price hikes facing industry, Tokyo's objective of forcing firms to absorb a large portion of the cost increases seems unrealistic.

Balance of Payments

14. Tokyo's hopes of achieving a trade surplus this year are fading. Although the expected moderate drop in Japanese import volume should help bring commodity prices down, several months will pass before declines show up in the trade account. The import bill in 1974 is expected to expand about 65% to $54 billion, with oil costs accounting for roughly two-thirds of the rise. As a result of sharply increased prices and moderate volume gains, Japan's export earnings are growing at a record rate of 48%. This pace will not likely be maintained throughout the year, however, and Japan will still register an overall 1974 trade deficit of about $2 billion compared with a $3.7 billion surplus in 1973. Japan has a strong chance, however, of restoring trade surpluses toward the end of this year.

15. With the trade account $2 billion in the red, Japan can expect a current account deficit of about $7 billion and a deficit in the basic balance of around $10 billion. Tokyo probably will be unable or unwilling to hold long-term capital outflows to less than $3 billion compared with last year's $10 billion level. Substantial loan and investment commitments have already been incurred, and Tokyo is determined to make funds available to help develop raw material resources abroad.

16. Despite the expected large deficit in the basic balance, Tokyo should be able to maintain official reserves near their current level of $12 billion to $13 billion. This can be accomplished by drawing on non-official holdings of foreign exchange and by borrowing short-term funds abroad. Non-official holdings -- mostly dollar deposits in Japanese commercial banks -- still amount to almost $8 billion. The Japanese already have increased their short-term borrowing abroad by some $7 billion, mostly in the Euro-dollar market. The Ministry of Finance recently warned Japanese banks to limit their Eurodollar borrowing, however, and short-term borrowing in the US has now accelerated. Tokyo clearly considers such moves only as temporary expedients. In the longer term, it will be aiming at least for balance in the current account, which will require returning to sizable trade surpluses.

Japan: External Economic Indicators

Value of Trade ($ million)

		Exports	Imports	Balance	Seasonally Adjusted
1972		28,032	19,061	8,971	
1973		36,264	32,576	3,688	
1974	Jan	2,551	3,335	-784	91
	Feb	3,368	4,058	-690	-635
	Mar	4,204	4,580	-376	-672
	Apr	4,169	4,548	-379	-264
	May	4,537	5,106	-569	-50

		Official Reserves ($ billion, end of period)	Exchange Rate (yen/dollar average for period)
1972		18.4	308
1973		12.2	273
1974	Jan	11.6	298
	Feb	11.9	292
	Mar	12.4	283
	Apr	12.7	278
	May	13.2	279
	Jun	13.4	283

Export and Import Price Indexes in US $ (1970=100)

		Exports	Imports
1972		115	110
1973		141	140
1974	Jan	156	174
	Feb	171	220
	Mar	175	228
	Apr	181	235
	May	185	240

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JAPAN

CAUSES OF INFLATION

The Pattern of Inflation

1. Japan's inflation is the most severe in twenty-five years and the highest among industrial countries. By mid 1974 wholesale prices were nearly 50% above the December 1971 level with most of the gain coming in the past year. Wholesale prices rose 8% during the first half of 1973, 19% in the latter half and 13% during the first half of 1974. The price spiral is a dramatic break with Japan's past performance. During the decade ending in 1972 Japanese wholesale prices rose only 1% annually on average, compared with US and West European average price gains of 2-3%.

Causes of Inflation

2. Various factors contributed to the price spiral. Strong domestic demand at home combined with production bottlenecks in key industries clearly played a role. Strong Japanese demand also contributed substantially to last year's record increase in international commodity prices. These price hikes hit Japanese industry especially hard. The pinch on oil supplies and the huge increase in oil costs have also been major factors stimulating inflation. Finally, higher unit labor costs are adding impetus to the price spiral.

3. To quantify the various factors contributing to inflation we used Japan's 1970 input-output tables. By manipulating the tables we determined the impact of a price change in one input on unit output prices, and in turn wholesale prices. The various inputs were divided into four groups -- agricultural goods, raw materials, oil and labor. The calculated changes in wholesale prices differ from the actual wholesale price index change. The unaccounted for residual essentially represents a change in profits.

4. The input-output analysis yielded the following results for 1972-73.

- Higher food and raw material prices accounted for roughly three-fifths of the 33% rise in wholesale prices during the period
- unit labor costs contributed relatively little to inflation during the period, accounting for only about one-tenth of the wholesale price increase
- higher profits accounted for as much as one-fifth of the price increase during 1972-73. Higher profits were a particularly important factor in the latter part of 1973 when they accounted for a quarter of the wholesale price increase.

Japan: Causes of Wholesale Price Inflation

	1972		1973		1974
	I	II	I	II	I
	(Percent of total change in wholesale prices)				
Agriculture	49	48	80	25	24
Other Raw materials	-243	3	-6	25	25
Oil	15	2	2	15	62
Labor	126	3	14	10	27
Residual	153	44	10	25	-38
Actual change in wholesale prices	0.50	5.24	7.95	19.44	11.15

5. Results for early 1974 show some marked changes in the factors contributing to inflation.

- higher oil prices provided the main impetus to the 11% rise in wholesale prices during January-April accounting for about three-fifths of the increase
- higher unit labor costs also added fuel to the price spiral, accounting for one-fourth of the January-April increase
- declining profit margins exerted a significant negative influence on prices

6. The Analysis also indicates that higher labor costs will be the chief factor stimulating inflation during the second half of 1974. Japanese workers have already won record wage hikes averaging 32% this year. Unit labor costs will increase almost as fast -- by at least 25% -- because sagging industrial output will prevent any significant productivity gains. Under these circumstances the wage increase should cause roughly a 10% hike in wholesale prices this year.

Higher Commodity Prices*

7. Japan's raw material costs began accelerating in late 1972 primarily because of higher import prices. Commodity prices rose 16% during the first half of 1973, by 27% during the latter half and by April 1974 were 70% above early 1972 levels. The price rise in part resulted from surging

*Excluding oil.

Japanese demand. Japan is by far the world's largest raw material importer and changes in its demand can exert a substantial influence over international prices. Last year, for example, Japan accounted for roughly half the increase in world consumption of copper, prices for which nearly doubled.

8. Last year's currency change did little to ease the impact of higher commodity prices on industrial production costs. Approximately 70% of Japanese imports, and practically all raw materials, are handled by a dozen large trading firms. Evidence suggests that these firms boosted profit margins following last year's yen revaluation rather than passing along savings stemming from parity changes. Even in yen terms, however, higher raw material costs since early 1972 have boosted industrial production costs directly by about 5% and indirectly by at least as much.

9. Some industries have experienced particularly large cost increases. Since mid 1972, for example, higher material costs have boosted unit output prices in the non-ferrous metals industry by about 30%. Unit output prices in the steel industry were boosted by 20% and 13% in the textile industry. Together these industries accounted for roughly one-fourth of the wholesale price increase since the start of 1972, somewhat more than their weight in the index. Higher import costs accounted for an estimated one-third of the wholesale price rise for foodstuffs.

Oil Price Hikes

10. The huge increase in oil import costs was the principal cause of inflation in early 1974. It terms of yen, per barrel costs are now running 240% above last year's level. In dollar terms Japan is paying about $11 per barrel. The input-output results indicate that higher oil costs have increased wholesale prices by about 8% since October 1975. This is about one-third of the total wholesale price rise in the period. The sharp oil price increase in January accounts for about 60% of the increase in Japan's wholesale prices during the first half of this year.

11. Sectors hardest hit by oil price hikes include iron and steel, nonferrous metals, and industries heavily dependent on oil derivatives. Unit output prices for synthetic rubber, for example, have increase 6% because of the oil price hike. In the case of synthetic fibers, the increase is nearly 10%. Costs of gas and electricity are up roughly 20%. Even before the oil price hikes Japan's electricity prices to industry were high relative to other industrial countries. The latest price increases will deal a particularly severe blow to Japan's aluminum industry.

Impact of Oil Price Increase on Unit Output Prices in Japan

	Percent Change in Sector Unit Output Prices		Percent Change in Sector Unit Output Prices
Fresh produce	2.3	Leather goods	3.1
Other crops	3.3	Furniture	2.5
Edible livestock	2.5	Lumber	2.5
Other livestock	2.4	Pulp paper	4.2
Lumbering	2.1	Packaging materials	4.1
Fisheries	4.7	Office supplies	2.8
Ferrous ores	5.9	Agricultural and industrial machinery	2.7
Nonferrous ores	4.3	Electric machinery	2.7
Lump coal	3.2	Transport machinery	2.5
Coke and coal products	5.8	Precision instruments	2.3
Crude oil and natural gas	244.1	Miscellaneous manufactures	5.5
Refined petroleum products	91.0	Civil engineering	4.3
Other minerals	13.2	Construction	3.4
Ceramics	7.9	City gas	20.7
Meat and meat products	2.7	Electric power	18.9
Marine products	3.8	Water, sewage	5.3
Grains	2.8	Transport	5.9
Other edibles	3.5	Communications	0.8
Beverages	1.6	Wholesale and retail trade	2.4
Tobacco	0.8	Publishing and printing	1.8
Pig iron and ingots	6.1	Banking	0.5
Steel mill products	4.7	Real estate	0.6
Nonferrous metals	4.3	Rentals	0.5
Fabricated metal products	3.2	Research	1.7
Heavy chemicals	11.8	Public services	1.8
Synthetic fiber feedstock	9.6	Other	1.9
Other chemicals	5.0	Undistributed	2.1
Rubber	4.9		
Natural fibers	2.6		
Synthetic fibers	6.1		
Fabrics	3.9	Total change weighted by wholesale price weights	8.4
Clothing and furs	2.9		

Labor Costs

12. Until recently higher labor costs were a relatively minor factor in Japan's inflation. Unit labor costs rose somewhat during the first half of 1972 when industrial output gains were moderate, but actually declined in the latter half. By that time industrial output was increasing relatively fast and productivity gains were more than adequate to offset substantial wage hikes. Output per man-hour in 1972 as a whole increased by 10% while wages rose 16%.

13. Japan's 2% increase in unit labor costs last year was less than any other industrial country. Hourly wages rose by 20%, but labor productivity gains were nearly as great. Not until September 1973 did output for man-hour begin slipping. By that time major industries were already working above their rated capacity making it difficult to achieve significant productivity gains. The reduction in oil supplies beginning in November aggravated the problem by forcing production cutbacks. As a result, unit labor costs were increasing fairly rapidly toward year end.

14. By early 1974 higher labor costs were adding substantially to the price spiral. Unit labor costs rose 7 %, during January-April 1974, boosting wholesale prices by almost 5 percentage points. The rise in labor costs

Impact of 25% Increase in Unit Labor Costs on Unit Output Prices:
Partial Sector Results

SECTOR	120
P.C. CHANGE	25.000
AGRICULTURE/FORESTRY	4.789
CRUDE, NATURAL GAS	7.645
REFINED PRODUCTS	4.334
EXOG. RAW MATERIALS	10.539
PROCESSED FOODS	7.074
TOBACCO	3.292
IRON, STEEL	8.945
NON-FERROUS	10.071
FABRICATED SHAPES	10.854
CHEMICALS	7.987
RUBBER	11.213
FIBERS, YARN	11.060
CLOTHING FURS	12.377
LEATHER GOODS	11.137
WOOD PRODUCTS	9.917
AGRI., INDUSTRIAL	10.745
ELECTRIC	10.057
TRANSPORT	11.078
PRECISION INSTRUMENTS	11.646
MISC. MANUFACTURE	9.993
CONSTRUCTION	10.920
UTILITIES	7.626
TRANSPORT	13.626
COMMUNICATION	12.254
WHOLESALE, RETAIL	10.751
PUBLISHING, PRINTING	12.448
OTHER SERVICES	9.043

TOTAL CHANGE WEIGHTED BY GROSS FINAL DEMAND = 9.8901

PERCENT CHANGE IN WHOLESALE PRICE INDEX = 9.2843

occurred because industrial output fell sharply in response to weakening domestic demand. Despite the drop in output, Japanese firms maintained overall employment levels, preferring instead to cut working hours. The auto and textile industries have been most affected by rising labor costs since their output has fallen the greatest.

Capacity and ~~Profits~~ Output problems

15. Supply problems developed fairly early in the business cycle. Industrial output expanded relatively fast in late 1972 and early 1973 but by mid-year most major Japanese industries were approaching capacity limits. ILLEGIB

16. Several factors contributed to the problem of inadequate capacity. The key reason was a sharp slowdown in plant and equipment investment beginning in late 1970. Private fixed investment rose by only 3% in 1971 and 8% in 1972 compared with the long term average increase of about 20%. As a result the growth in plant capacity fell to less than half the 15% long-term average. In some

industries -- notably textiles -- growth in plant capacity practically halted in part because parity changes made it more profitable to invest in overseas plants.

17. Investment fully recovered in 1973 when plant and equipment spending in real terms rose 20%. Nonetheless, plant capacity during the year still increased by only 8%, well below the long term average. One reason for continued slow growth in capacity is the roughly 1 year gestation period for construction of new plants. In addition, however, a larger share of fixed investment is going for pollution control equipment. The Japanese estimate that pollution control equipment is accounting for at least 10% of total fixed investment. In 1970 the share was much less.

18. Tokyo underestimated the problem of capacity restraints in formulating demand management policies. Fiscal and monetary policies remained expansionary through early 1973; indeed, money supply during the year ending in March 1973 rose 50% while the budget deficit was comparable to a $25 billion US deficit. Tokyo began tightening monetary and fiscal policies by mid year, but initial measures had little impact on private spending. Credit restrictions were ineffective because corporate liquidity was high and Japanese firms were able to finance

a larger share of investment from retained earnings. Rising wages and a growing inflationary psychology fueled personal consumption.

19. Not until early 1974 were restrictive demand management policies fully effective. The combination of the policies and the continued erosion of real incomes caused a sharp decline in aggregate demand during the first half of 1974. With demand falling and some excess capacity developing industry was forced to absorb a substantial share of cost increases during the period. As a result, profit margins were reduced considerably.

Prospects

20. Although the worst of the price spiral appears over, inflation will remain a serious problem throughout 1974. Unit labor costs alone will increase enough to boost wholesale prices by almost 10% during the second half of 1974. Although raw material costs are beginning to fall because of the world-wide economic slowdown, the slippage has been moderate. Moreover, the full indirect effects of higher oil prices have yet to be felt , because of price controls. Thus, while the rate of inflation will slow price stability is still a long way off.

21. To restrain price hikes, Tokyo plans to maintain tight demand management policies through the fall. The aim is to force business firms to absorb high wage costs. A growing number of industries, however, are already in a profit squeeze. Moreover, if profits continue deteriorating, investment will be further inhibited, prolonging Japan's economic downturn. To help alleviate the problem, Tokyo is permitting price increases in a few selected industries, such as steel, in order to assure that adequate investment levels are maintained.

22. An alternative policy would entail some stimulative action aimed at boosting output. This, in turn, would help ease cost-price pressures by permitting labor productivity gains that otherwise would not occur. Several risks are involved in such action, however. A major problem is that any strong Japanese economic recovery at this time would tend to reverse the recent downward trend in international commodity markets. In any event, Tokyo is concerned that stimulative action would interfere with its goal of eliminating the current account deficit in the near future.

CONSUMER PRICE INDEX

(1970 = 100)

	TOTAL	Foods	Housing	Clothing
1965	76.7	74.7	79.1	78.6
1966	80.6	77.6	83.1	81.7
1967	83.8	81.3	87.1	84.0
1968	88.2	86.5	90.3	87.7
1969	92.9	91.7	94.0	92.0
1970	100.0	100.0	100.0	100.0
1971	106.1	106.0	104.8	109.0
1972 Jan	107.8	107.0	106.9	112.1
Feb	108.2	107.3	107.1	110.4
Mar	109.2	109.1	107.3	110.9
Apr	110.4	110.4	108.2	111.1
May	110.7	110.2	108.8	112.9
Jun	110.7	109.4	109.2	115.6
Jul	110.7	108.9	109.5	116.0
Aug	111.6	111.1	109.7	113.8
Sep	112.2	111.8	109.8	117.4
Oct	113.0	112.6	110.2	119.3
Nov	112.5	111.0	110.8	119.9
Dec	113.4	112.2	111.5	120.6
1973 Jan	114.5	114.1	112.1	120.9
Feb	115.4	115.5	113.0	121.6
Mar	118.4	120.0	114.6	126.7
Apr	120.7	122.0	116.8	131.4
May	122.8	123.9	118.4	138.5
Jun	123.0	122.3	119.4	140.6
Jul	123.9	123.1	120.1	141.1
Aug	125.0	125.4	121.0	140.0
Sep	128.6	130.7	122.5	148.1
Oct	129.1	130.1	124.2	153.2
Nov	130.4	130.3	126.4	155.2
Dec	135.1	135.6	132.0	158.6
1974 Jan	141.0	145.4	138.1	161.9
Feb	145.8	152.0	144.6	163.3
Mar	146.8	152.4	146.6	165.2
Apr	150.8	N.A.	N.A.	N.A.
May	151.2	N.A.	N.A.	N.A.

Wholesale Price Index
(1970=100)

	Total	Foodstuffs	Textiles	Iron & Steel	Machinery & Equipment	Chemicals	Petroleum, Coal & Related Products
1965	89.8	84.5	88.0	88.8	97.6	105.8	102.6
1966	92.0	87.6	88.3	90.4	98.0	103.0	100.6
1967	93.7	89.0	93.6	92.8	98.4	101.7	99.6
1968	94.5	93.7	94.6	86.7	98.6	100.2	100.4
1969	96.5	97.9	94.1	91.9	98.5	99.3	97.7
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	99.2	104.3	96.7	93.6	99.4	99.3	111.9
1972 Jan	98.6	103.8	98.0	89.8	100.3	99.4	110.5
Feb	98.8	104.3	99.0	89.7	100.4	98.9	110.2
Mar	99.1	105.4	99.0	90.9	100.3	98.8	109.7
Apr	99.3	104.8	99.6	91.4	100.7	98.5	110.6
May	99.0	105.5	97.0	94 9	99.0	98.6	111.6
Jun	99.1	105.5	97.5	95.4	99.1	98.9	111.7
Jul	99.2	105.8	97.1	96.2	99.1	98.9	110.9
Aug	99.8	106.2	98.2	97.0	99.2	99.3	110.9
Sep	100.5	106.7	100.4	97.3	99.3	99.6	111.0
Oct	101.2	107.1	102.6	97.6	99.3	1100.0	110.9
Nov	102.7	108.1	103.4	97.6	99.3	100.3	111.4
Dec	104.3	109.2	105.9	99.3	99.3	100.6	111.8
1973 Jan	105.9	109.3	112.6	101.3	99.5	100.9	112.6
Feb	107.6	111.8	120.6	102.0	99.8	101.4	111.4
Mar	109.6	113.4	134.3	101.8	100.4	102.3	110.1
Apr	110.2	113.4	132.3	102.1	102.0	104.3	111.4
May	111.2	114.1	133.6	103.0	102.7	105.5	113.5
Jun	112.6	115.9	136.6	104.7	103.6	106.2	114.8
Jul	114.8	116.8	139.2	107.9	104.2	107.7	116.0
Aug	117.2	118.6	141.6	113.2	104.7	110.6	117.5
Sep	119.3	120.5	139.4	118.8	105.7	113.7	119.3
Oct	121.7	122.0	139.4	120.2	107.3	1117.9	122.1
Nov	125.6	124.9	141.2	123.0	109.6	125.6	134.8
Dec	134.5	129.0	148.8	127.9	113.9	147.7	152.0
1974 Jan	141.9	134.3	152.0	133.1	119.2	155.8	166.6
Feb	147.4	136.8	148.4	133.9	124.9	155.8	218.7
Mar	148.4	137.0	144.5	133.8	126.3	154.7	237.4
Apr	149.5	137.8	141.1	135.1	126.6	155.2	260.2
May	150.4	NA	NA	NA	NA	NA	NA

Export and Import Price Indexes*

(1970=100)

	Export Prices	Import Prices
1965	92.0	93.2
1966	92.1	95.1
1967	92.5	94.2
1968	92.9	94.6
1969	95.4	96.8
1970	100.0	100.0
1971	100.7	100.0
1972	97.8	95.7
1973	106.6	115.8
1973		
Jan	99.5	106.9
Feb	99.4	105.1
Mar	99.9	106.5
Apr	101.3	105.8
May	102.6	108.4
Jun	104.1	111.9
Jul	105.5	116.4
Aug	107.2	119.9
Sep	109.0	119.6
Oct	112.5	122.0
Nov	117.4	130.7
Dec	120.7	136.4
1974		
Jan	130.2	152.7
Feb	134.1	177.9
Mar	134.0	180.2
Apr	136.7	184.9
May	139.4	189.5

* Contract prices in yen.

COMMODITY IMPORT PRICE INDEX

(1970 = 100)

Year	Foodstuffs	Textile Materials	Metallic Materials	Raw Materials	Mineral Fuels	Chemicals	Machinery	Miscellaneous
1968	92.9	106.1	90.2	92.9	99.5	95.2	97.7	91.4
1969	93.8	105.4	91.3	96.6	95.1	94.4	90.9	96.4
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	102.8	97.6	89.0	99.8	113.6	102.3	110.8	90.1
1972	95.7	102.2	77.1	91.3	110.9	81.7	98.9	86.1
1973 Jan	105.8	127.7	78.5	102.6	113.7	87.5	103.4	89.2
Feb	104.0	123.2	76.8	106.0	112.5	80.6	97.7	86.6
Mar	99.1	122.1	73.3	108.9	104.2	87.6	91.0	86.0
Apr	103.9	131.0	76.8	117.4	107.0	80.6	84.2	89.4
May	108.6	138.5	79.6	122.2	111.5	85.1	82.4	91.1
Jun	113.0	145.3	79.5	126.7	115.3	78.4	82.5	94.5
Jul	117.1	151.4	83.7	122.9	119.5	82.9	82.6	97.7
Aug	117.7	157.1	88.8	128.0	121.5	84.0	82.8	103.9
Sep	122.1	162.6	91.7	135.4	124.5	71.7	79.2	108.4
Oct	127.5	162.7	90.0	136.4	128.9	72.4	83.4	109.4
Nov	136.6	174.1	96.0	142.9	151.9	59.7	85.6	113.3
Dec	145.3	183.3	105.9	149.6	185.5	61.9	88.7	118.1

GNP

(Percent Change Over Previous Year)

	Nominal	Real	Consumption		Fixed Investment	
			Private	Gov't	Private	Gov't
1966 I	12.6	8.1	7.9	9.0	3.9	14.1
II	13.6	9.4	7.7	8.2	8.9	25.2
III	18.5	14.6	7.8	9.1	12.1	22.1
IV	16.0	11.2	10.1	4.3	15.2	-1.4
1967 I	19.9	14.2	7.4	5.1	17.5	0.1
II	18.5	15.6	11.6	0.8	26.1	-6.8
III	18.9	14.3	11.3	2.5	27.1	-0.3
IV	17.0	11.8	8.8	3.6	29.6	5.6
1968 I	17.0	12.8	9.5	7.3	27.7	16.6
II	17.8	14.7	9.3	7.6	24.5	14.1
III	18.1	13.5	11.4	7.0	22.2	13.9
IV	19.8	15.7	9.5	6.9	21.2	16.1
1969 I	14.9	11.5	9.6	5.3	13.1	11.1
II	17.8	14.0	9.8	8.1	20.5	13.4
III	17.3	11.5	9.3	5.9	24.8	6.6
IV	16.7	11.5	10.1	5.9	19.0	8.7
1970 I	20.7	13.1	8.1	5.7	25.6	1.9
II	20.4	12.5	7.3	6.0	15.3	14.5
III	19.6	12.7	8.4	6.4	11.6	15.7
IV	12.3	4.7	6.3	7.3	7.7	10.6
1971 I	14.2	8.8	8.8	7.9	7.3	22.1
II	9.5	4.0	7.9	7.5	2.0	16.3
III	9.4	5.3	6.2	6.2	1.3	23.4
IV	9.8	5.3	6.4	6.8	0.7	27.1
1972 I	11.4	6.3	8.1	9.3	1.9	25.2
II	12.6	7.6	8.5	6.1	6.7	16.8
III	14.2	8.7	9.5	9.9	9.3	10.9
IV	17.4	11.2	10.5	8.6	12.5	5.3
1973 I	24.3	16.0	10.2	5.6	17.4	25.6
II	23.8	12.6	8.6	8.5	16.7	8.4
III	23.6	9.6	7.8	7.7	20.2	0.3
IV	25.8	6.8	8.4	7.3	20.7	-2.1

GNP Deflator

(1965=100)

	Quarter			
	I	II	III	IV
1965	98.2	100.3	98.4	103.2
1966	102.0	104.6	103.5	108.1
1967	106.9	108.4	107.3	113.3
1968	110.7	112.6	111.6	117.6
1969	114.1	116.3	117.4	123.0
1970	121.8	124.5	124.6	132.0
1971	128.2	130.9	130.0	137.1
1972	133.7	137.3	136.5	144.8
1973	143.2	150.9	153.9	170.5

Money Supply
(1970=100)
(% change over previous year)

	M	M_2
1965	18.2	18.0
1966	13.9	16.2
1967	14.1	15.5
1968	13.4	14.8
1969	20.6	18.5
1970	16.8	16.9
1971	29.7	24.3
1972	24.7	21.1
1973	16.8	16.8
Mar 1974	13.8	15.1

Interest Rates

(Percent)

		Central Bank Discount Rate	Call Rate	Average Loan Rate
1965	Jun	5.48	6.940	7.830
	Dec	5.48	5.840	7.610
1966	Jun	5.48	5.840	7.490
	Dec	5.48	5.840	7.370
1967	Jun	5.84	6.210	7.290
	Dec	5.84	7.300	7.350
1968	Jun	6.21	8.030	7.520
	Dec	5.84	7.670	7.380
1969	Jun	5.84	6.940	7.350
	Dec	6.25	8.500	7.605
1970	Jun	6.25	8.250	7.661
	Dec	6.00	8.000	7.693
1971	Jun	5.50	6.500	7.618
	Dec	4.75	5.500	7.457
1972	Jun	4.25	4.250	7.130
	Dec	4.25	4.875	6.724
1973	Jun	5.50	6.548	7.023
	Dec	9.00	10.471	7.929
1974	Jun	9.00	12.500	9.395

Japanese Government Finances - 1965-1973: Annual Index

(1965=100)

Year	Revenue	Expenditure	Deficit
1965	100.0	100.0	100.0
1966	111.9	118.1	160.6
1967	134.0	134.8	140.2
1968	159.8	156.8	136.5
1969	188.6	179.6	118.2
1970	227.8	207.0	64.1
1971	263.6	234.6	35.2
1972	273.8	275.0	282.9
1973	279.1	288.7	354.4

Japan Labor Statistics

	Employed (millions persons)	Unemployed (% of labor force)
1965 (average)	47.48	0.81
1966 "	48.47	0.90
1967 "	49.20	1.26
1968 "	50.02	1.17
1969 "	50.40	1.12
1970 "	50.94	1.14
1971 "	51.14	1.24
1972 "	51.09	1.41
1973 Jan	50.61	1.56
Feb	50.82	1.51
Mar	51.58	1.56
Apr	52.28	1.41
May	52.75	1.27
Jun	53.28	1.24
Jul	53.26	1.15
Aug	52.64	1.13
Sep	52.85	1.18
Oct	53.80	0.98
Nov	52.90	1.03
Dec	51.17	1.04
1974 Jan	50.30	1.43
Feb	50.54	1.62

Japan: Trends in Plant Capacity

(change over previous year)

	Manu-facturing	Iron & Steel	Non-Ferrous Metals Products	Machinery	Chemicals	Textiles	Rubber Products
1966	6.8	10.4	10.3	4.1	10.0	4.7	- 4.4
1967	12.3	17.0	11.4	17.8	11.5	5.7	6.9
1968	12.0	10.2	17.5	16.2	18.7	4.2	16.6
1969	15.0	14.4	17.6	24.9	13.1	4.6	19.1
1970	15.3	14.1	16.2	20.3	18.5	6.9	12.2
1971	8.6	10.2	10.7	8.4	15.2	4.1	11.1
1972	5.4	8.3	10.4	6.2	8.8	-3.1	8.1
1973	8.9	8.9	10.8	12.4	5.1	1.6	14.9

Table

Trends in Productivity and Wage Earnings
1965=100

	Productivity Index	Earnings Index
1966	110.1	116.2
1967	126.4	123.5
1968	142.4	143.5
1969	164.3	169.8
1970	185.2	201.7
1971	191.8	233.3
1972	211.1	271.0
1973	250.8	327.3
1974*	252.0	425.0

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JAPAN: ALTERNATIVES TO OIL

Tokyo is altering its long-term energy plans to reduce dependence on foreign oil. Nuclear power development is being accelerated, and the downward trend in coal production will be reversed. Nevertheless, Japan probably will depend on oil for close to 70% of its energy needs in 1985, compared with 75% at present. Since domestic offshore exploration is only just beginning and the potential yield is uncertain, nearly all of Japan's oil probably will still be imported.

Nuclear plants currently account for only 2% of Japan's total electric power capacity. Before the oil crisis, Tokyo planned to increase this share to 18% by 1980 and 25% by 1985. The Japanese have now decided to accelerate their development program, possibly boosting the nuclear share of electric capacity to 30%–40% by 1985. The program, however, already is bogged down because of siting problems. Even if these problems were solved, the Japanese might have difficulty obtaining sufficient enriched uranium. Under these circumstances, Tokyo is unlikely to achieve its new objectives.

Coal consumption will continue to increase over the next decade, but coal's share of total energy will decline considerably. Domestic production fell from a peak of 50 million tons in the mid-1960s to 22 million tons last year. An increase of only one million tons is planned during 1974-75. Even with maximum effort, the Japanese probably could not boost output to more than 35 million tons by 1985. Coal reserves are estimated at 20 billion tons, but quality is poor and exploitation will be difficult.

Japan's Primary Energy Consumption

	Percent of Total		
	1973 Estimate	1980 Plan	1985 Plan
Oil	75	73	71
Coal	17	11	9
Natural gas	1	4	5
Nuclear	1	8	11
Hydro	6	4	4

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Least significant in Japan's energy outlook are hydroelectric power and natural gas. Hydroelectric capacity has nearly reached its limit; future gains in output will come mainly from expensive pump-storage powerplants.

Although domestic sources of natural gas are being sought, most of Japan's supply will continue to be imported. The Japanese hope to increase liquefied natural gas imports ten-fold by 1985. They have been negotiating for supplies with numerous countries, including Abu Dhabi, Iran, Indonesia, and the USSR. These efforts may be increased, but natural gas is unlikely to account for more than 5% of Japan's total energy by the mid-1980s.

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